

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

May 4, 2004

UNION RIVER TELEPHONE COMPANY
Request for Universal Service Funding

Docket No. 2003-843

ORDER ESTABLISHING
SCHEDULE FOR REDUCTIONS
IN UNIVERSAL SERVICE
FUNDING AND INCREASES TO
LOCAL RATES

MAINE PUBLIC UTILITIES COMMISSION
Investigation of the Rates of Union River
Telephone Company

Docket No. 2003-844

ORDER CLOSING
INVESTIGATION

UNION RIVER TELEPHONE COMPANY
Implementation of 2002 Amendments to
Chapter 204

Docket No. 2003-489

ORDER CORRECTING
ORDERING PARAGRAPH 6 OF
DECEMBER 8, 2003 ORDER

WELCH, Chairman; DIAMOND and REISHUS, Commissioners

I. SUMMARY

In this Order, we close our rate investigation, in Docket No. 2003-844, of the revenue requirement of Union River Telephone Company. In Docket No. 2003-843, we establish schedules for further increases in rates for local service and reductions in funding from the Maine Universal Service Fund (MUSF). We also take this opportunity to correct an error in our December 8, 2003 Order in Docket No. 2003-489.

II. RATE INVESTIGATION

Our universal service fund (USF) Rule, Chapter 288, requires that a USF recipient undergo a rate proceeding as a condition of receiving USF. The Public Advocate, the only party in the proceeding aside from the Company, has reviewed the Company's costs and revenues and concurs with the Company that the amount of revenue the Company is now receiving – from local rates, access rates (which have already been reduced to interstate levels) and universal service funding (USF) – is

consistent with (approximately equal to) its revenue requirement. The Commission's Advisory staff concurs. Therefore, we close the investigation into Union River's revenue requirement.

III. USF AND LOCAL RATE ADJUSTMENTS

At the time the Commission ordered universal service funding (USF), Union River increased its local rates about halfway from their existing levels to Verizon's levels. Rates for residential service now stand at \$13 (Economy) and \$16 (Premium). Business rates are now \$21 (Economy) and \$25 (Premium). Under our USF Rule, Chapter 288, a USF recipient must establish rates at least equal to those of Verizon as a condition of receiving USF, although it may phase in those rates. Ch. 288, §§ 3(C)(2) and (D)(2). We approved such a phase-in in our December 8, 2003 Order in Docket No. 2003-844.

The parties (with concurrence by the Commission's advisory staff) have agreed that Union River will increase its local rates for residential service to Verizon levels on July 1, 2005, and that it will increase its local rates for business service to the Verizon rates in two further equal steps, on July 1, 2005 and July 1, 2006. On each of those dates, the support from the MUSF will decrease on a revenue-neutral basis, i.e., the reduction in support should equal the revenue effect from the rate increases. In addition, on July 1, 2005, Union River's USF must be further adjusted (up or down) depending on the results of its "tracking account" required by the BSCA Rule, Chapter 204, and our order in *Union River Telephone Company, Implementation of 2002 Amendments to Chapter 204, Docket No. 2003-489*, Amended Order Approving BSCA Rates and Revenue Loss Calculations (Subject to Tracking) (December 8, 2003). That Order requires Union River to file the results of its tracking of local revenue changes and BSCA-related investment, if any, on March 15, 2005. The local revenue changes that Union River is tracking are those that result from changes in the mix of Premium and Economy customers, the change in the rate for calling by Economy option customers to portions of BSCAs where a flat rate does not apply to those customers, and calling pattern changes by those customers. The revenue changes shown by the tracking account will have no effect on Union River's local rates, which will reach Verizon levels in any event. The BSCA revenue changes will instead affect only the amount of universal service funding.¹

Union River has proposed to maintain greater differentials between its Economy and Premium rates (for both residential and business customers) than those in Verizon's rates. Union River believes that the Verizon differentials (\$1.50 for residential and \$3.11 for business) do not provide a sufficient discount for Economy customers who in Union River's view, make very few calls to the non-Economy areas within its BSCAs. Union River's present Premium-Economy differentials are \$3 for residential

¹ Ordering paragraph 6 of the December 8, 2003 Order in Docket No. 2003-489 erroneously requires Union River to propose adjustments to its local rates following BSCA tracking. See correction in Ordering Paragraph 6 of this Order.

customers and \$4 for business customers. Union River seeks to maintain those differentials at the same amounts. We find that Union River's request is reasonable.

Section 3(D)(1) of Chapter 288 allows a carrier, with the Commission's approval, to maintain a different rate design from that of Verizon "provided that, on an overall basis, the carrier's rates are no less than those of Verizon." This means that Union River's local rates must produce the same amount of revenue that Verizon's would if Verizon's actual rates were in effect. In order to have an Premium-Economy differential that is greater than Verizon's and produce the same amount of revenue, Union River will have to establish Premium rates that are higher than Verizon's Premium rates and Economy rates that are lower than Verizon's Economy rates.

No later than May 1, 2005, Union River shall propose actual rates, both for the July 1, 2005 increases to residential and business rates and the July 1, 2006 increases to business rates. Union River's local rates must produce the same amount of revenue as Verizon's rates only by the latter date. As noted above, Union River's business rates will increase in two equal steps, on July 1, 2005 and July 1, 2006. However, to ensure that each of the business rate increases are approximately equal, it is necessary to calculate the final rates prior to the earlier date. Similarly, because Union River's only rate increase for residential customers will go into effect on July 1, 2005, it is obviously necessary to determine those rates in advance of that date.

As also discussed above, universal service funding for Union River will decrease on both July 1, 2005 and July 1, 2006. In order to determine as accurately as possible the revenue effect of the actual rate increases Union River will propose on those dates, Union River shall file the most recent available billing units for access lines on May 1, 2005 and May 1, 2006.

In establishing that its rates will produce the same revenues as Verizon's rates, we find that it is more practical for Union River to use Union River Premium and Economy billing units both for the calculation of its own revenues and for those that the Verizon rates would produce. If Union River in fact had Verizon's rates, the smaller Premium-Economy differential might result in more Premium customers and fewer Economy customers, but guessing what those different billing units would be would be too speculative.

We note that, because of our recent decision that Verizon will be permitted to recover in its local rates access rate reductions that are required by law, Verizon's local rates will change on June 1, 2004 and again on June 1, 2005 (both dates prior to the first set of Union River's increases). Verizon's access rate reductions and local rate increases will occur in two equal steps; Verizon estimates that the local rate increases on June 1, 2004 will be 27 cents per line; no estimate is presently available for the June

1, 2005 increase although it is not likely to be substantially different.² Verizon's local rates may also change because of BSCA revenue loss or other reasons.

Union River's rate increases will all occur after the Verizon local rate increases discussed above. Union River will increase its residential rates to the full level of Verizon's rates on July 1, 2005; by the filing date for those rates, May 1, 2005, Union River should be able to determine what Verizon's residential rates will be. Union River will also increase its business rates halfway to Verizon's levels on July 1, 2005 and again on July 1, 2006. Union River should be able to determine Verizon's business rates reasonably in advance of May 1, 2005.

Accordingly, we

1. CLOSE the investigation in Docket No. 2003-844;
2. APPROVE the plan for further increases in Union River Telephone Company's rates for local service described above;
3. ORDER Union River to file proposed rates to accomplish the goals described above, using the calculational methods also described above, on or before May 1, 2005;
4. ORDER Union River on May 1, 2005 and again on May 1, 2006 to file the most recently available access line billing units for each category of local service;
5. REMIND Union River that on March 15, 2005, it must comply with the Basic Service Calling Area tracking account filing requirements set forth in Ordering Paragraphs 5-8 (subject to the correction in Ordering Paragraph 6 below) of the Commission's Order of December 8, 2003 in Docket No. 2003-489.
6. CORRECT Ordering Paragraph 6 of the December 8, 2003 Order in Docket No. 2003-489 to read:

ORDER Union River Telephone Company, on or before March 15, 2005, to report to the Commission the results of the tracking account described in paragraph 5 and changes in the number of lines; to provide a proposal to reimburse the Maine Universal Service Fund for changes in revenues as a result of BSCA implementation that exceeded the estimates used for the purpose of the initial calculation of universal service funding; and to

² Although the access *rate* reductions are equal on each of the two dates, the access and local service revenue effects in 2005 will depend on access minute and local line billing units that are closer in time to that date.

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.